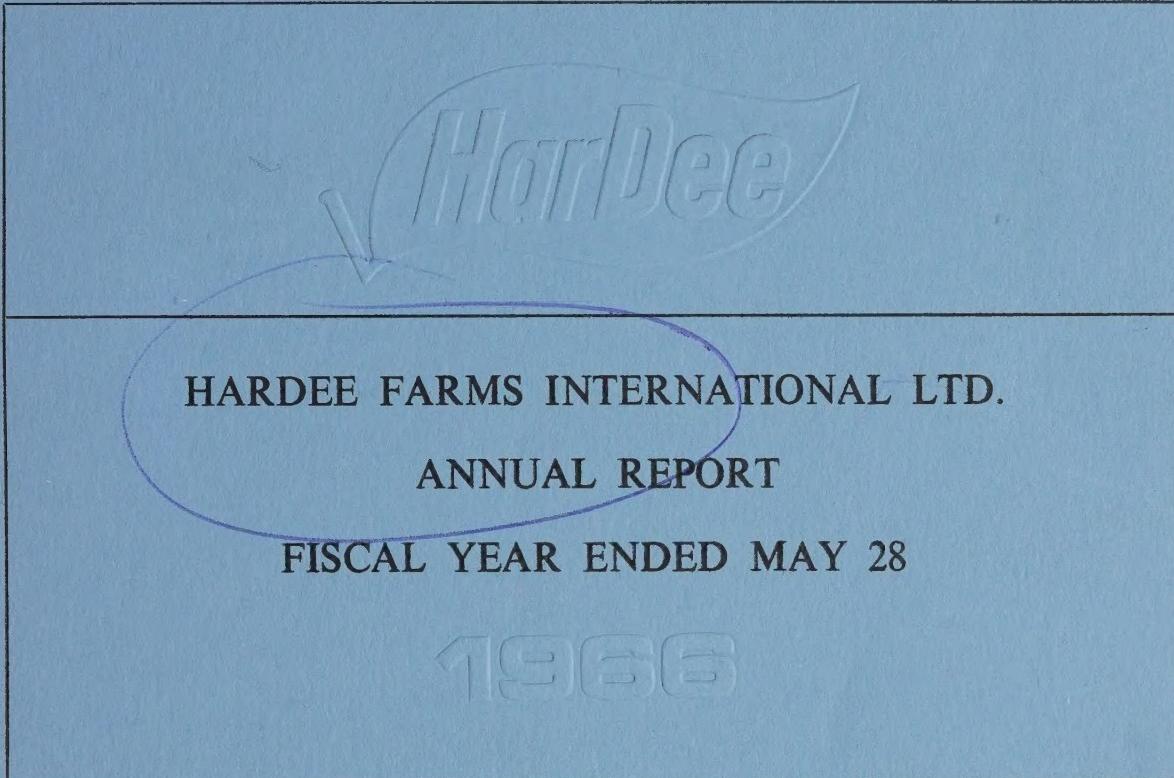


AR03



Hardee Farms International Ltd.

BOARD OF DIRECTORS

C. G. Cockshutt, M.C.	<i>Brantford</i>
H. G. Darroh	<i>Florida</i>
D. R. C. Harvey, Q.C.	<i>Toronto</i>
W. G. Horsey	<i>Toronto</i>
J. A. McKechnie	<i>Toronto</i>
R. J. Morrison	<i>Toronto</i>
J. J. Phillips	<i>Toronto</i>
G. E. Phipps	<i>Toronto</i>
D. L. Sinclair	<i>Toronto</i>

EXECUTIVE OFFICERS

J. J. Phillips, *President*
A. W. Walker, *Vice President—Finance, Secretary*

SUBSIDIARIES AND DIVISIONS

Hardee Farms Ltd.	<i>Sherrington, Quebec</i>
Holland River Gardens Co. Limited	<i>Bradford, Ontario</i>
Ottawa River Farms Limited	<i>Alfred, Ontario</i>
Tropical Farms Division	<i>Lake Placid, Florida</i>

AUDITORS

McDonald, Currie & Co.,
Chartered Accountants

SOLICITORS

Daly, Harvey & Cooper

Toronto

BANKERS

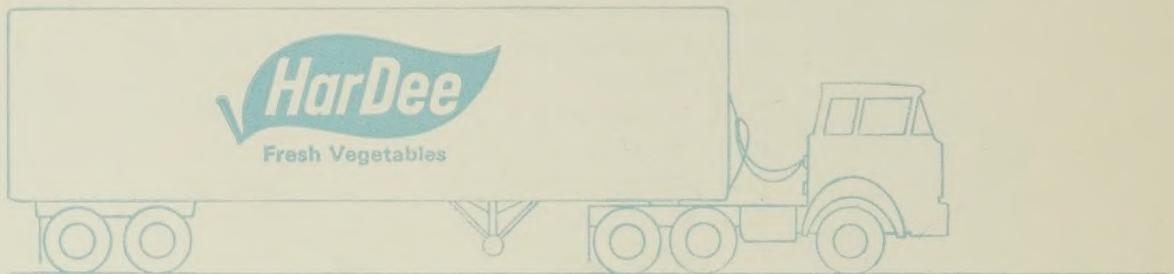
Bank of Montreal
Canadian Imperial Bank of Commerce
First National Bank of Miami
First Bank of Lake Placid

REGISTRAR AND TRANSFER AGENT

The Canada Trust Company, *Toronto, Montreal and Winnipeg*

HEAD OFFICE

Bradford, Ontario, Canada. Telephone Toronto 364-5436



Report to shareholders

The Company's annual accounts are enclosed herewith and show that last year the financial condition of the business continued to improve.

Consolidated sales for the fiscal year amounted to \$4,175,095. The corresponding figure a year earlier was \$3,838,904.

The Company's vegetable business in Ontario and its beef cattle business in Florida were sufficiently profitable to meet interest costs of \$305,421, together with all other expenses of the operation—except depreciation—and produce a consolidated net earnings figure of \$4,048.

Working capital increased during the year and at year end amounted to \$498,514, reflecting a current ratio of 1.5 to 1. A statement of the source and application of funds is included elsewhere in this report as additional information for shareholders.

During the year the Company sold its 50 acre experimental orange grove in Florida. A further 440 acres in Florida were also sold for new citrus

development. As outlined in last year's report, your Company has a 50% equity interest in an affiliated company owning 255 of these acres.

In addition to the sale of land, the Company also divested itself of the idle plant buildings in Lake Placid, Florida, and the proceeds were applied to an outstanding mortgage.

Your Directors have been encouraged by the operating and financial results of the business during the past two years, and feel that the Company must now address itself to requirements for still further improvement. This will involve reorganization of the financial structure, and a plan to accommodate this is presently being worked on.

Your Directors take this opportunity to express appreciation to all employees for their enthusiastic co-operation and loyal support during the year.

On behalf of the Board

A handwritten signature in blue ink, appearing to read "J. D. Phillips".

September 20, 1966

President

Consolidated Balance Sheet
as at May 28, 1966

Assets

	1966	1965
CURRENT ASSETS		
Cash	\$ 35,387	32,808
Accounts receivable, less allowance for doubtful accounts .	299,876	219,961
Inventories—		
Produce and supplies—at lower of cost or replacement cost	174,393	182,122
Beef cattle—at realizable value	882,665	923,942
Containers—at cost, less amounts written off	72,992	90,831
Prepaid expenses—		
Current crop	76,763	88,408
Other	13,193	16,435
	<u>\$ 1,555,269</u>	<u>1,554,507</u>
INVESTMENT IN AFFILIATED COMPANY		
Shares and debentures—at cost	<u>\$ 102,000</u>	<u>—</u>
FIXED ASSETS		
Buildings and equipment—at cost, less amounts written off .	\$ 3,212,274	3,374,871
Accumulated depreciation	809,513	837,577
	<u>\$ 2,402,761</u>	<u>2,537,294</u>
Land (note 2)	9,340,450	9,544,050
	<u>\$11,743,211</u>	<u>12,081,344</u>
OTHER ASSETS		
Organization and financing expense	\$ 574,996	574,996
Excess of purchase price of shares of subsidiaries over book value thereof	953,180	953,180
	<u>\$ 1,528,176</u>	<u>1,528,176</u>
	<u><u>\$14,928,656</u></u>	<u><u>15,164,027</u></u>

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Hardee Farms International Ltd. and subsidiaries as at May 28, 1966 and the consolidated statements of earnings, deficit and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Depreciation has not been provided in the current and two preceding years. Had depreciation been recorded in these years at normal rates, earnings for the current year would have been reduced by approximately \$200,000 and both accumulated depreciation and deficit increased by approximately \$640,000.

Subject to the foregoing qualification, in our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings, deficit and source and application of funds, when read in conjunction with the notes thereto, present fairly the consolidated financial position of the companies as at May 28, 1966 and the consolidated results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Hardee Farms International Ltd.

Liabilities

CURRENT LIABILITIES	1966	1965
Bank advances (note 3)	\$ 668,169	714,461
Accounts payable and accrued liabilities	316,624	416,265
Current instalments of long-term debt (note 3)	71,962	125,361
	\$ 1,056,755	1,256,087
LONG-TERM DEBT, less current instalments (note 3)	5,135,696	5,216,507
	\$ 6,192,451	6,472,594

Shareholders' Equity

CAPITAL STOCK (note 4)

Authorized—

49,448 first preferred shares of the par value of \$100
each, issuable in series

42,285 6½% non-cumulative second preferred shares of
the par value of \$100 each, redeemable at par

4,000,000 common shares of no par value

Issued and fully paid—

9,198 6½% first preferred shares, Series A redeemable

at \$120 per share \$ 919,800 919,800

514 second preferred shares 51,400 51,400

1,713,188 common shares (1965—1,665,556 shares) 7,607,756 7,567,032

CONTRIBUTED SURPLUS

392,342 392,342

DEFICIT

(235,093) (239,141)

\$ 8,736,205 8,691,433

\$14,928,656 15,164,027

Signed on behalf of the Board

J. J. PHILLIPS, *Director*

G. E. PHIPPS, *Director*

Hardee Farms International Ltd.

Consolidated Statement of Earnings
for the year ended May 28, 1966

	1966	1965
SALES	\$4,175,095	3,838,904
Net earnings for the year before the following	\$ 318,215	383,810
Remuneration of directors	42,500	39,000
	<u>\$ 275,715</u>	<u>344,810</u>
Profit on sale of fixed assets	33,754	3,757
Profit on sale of dairy herd	—	32,000
Net earnings before interest	\$ 309,469	380,567
Interest	305,421	360,013
Net earnings for the year	<u>\$ 4,048</u>	<u>20,554</u>

Consolidated Statement of Deficit
(Since reorganization of June 1, 1963)
for the year ended May 28, 1966

	1966	1965
Balance—beginning of year	\$239,141	259,695
Net earnings for the year	4,048	20,554
Balance—end of year	<u>\$235,093</u>	<u>239,141</u>

Hardee Farms International Ltd.

Consolidated Statement of Source and Application of Funds
for the year ended May 28, 1966

FUNDS WERE OBTAINED FROM:

Net earnings for the year	\$ 4,048	
Add: Interest deferred	159,902	
	<hr/>	
	\$163,950	
Less: Profit on sale of fixed assets	33,754	130,196
	<hr/>	
Sale of fixed assets (net)	\$371,887	
Less: Portion represented by investment in affiliated company	102,000	269,887
	<hr/>	
Issue of shares for cash	20,000	
	<hr/>	
	\$420,083	

FUNDS WERE APPLIED TO:

Retirement of long-term debt	<hr/>	219,989
INCREASE IN WORKING CAPITAL		\$200,094
WORKING CAPITAL—BEGINNING OF YEAR		<hr/> 298,420
WORKING CAPITAL—END OF YEAR		<hr/> \$498,514

Notes to Consolidated Financial Statements

for the year ended May 28, 1966

1. Foreign Exchange

Individual assets and liabilities in U.S. dollars have been converted at par and an adjustment has been made in the accounts to give effect to the conversion of net current assets in U.S. dollars to Canadian dollars at the rate of exchange prevailing at May 28, 1966.

2. Land

Land in Canada has been valued on the basis of an appraisal dated July 11, 1962 by Mr. N. Porter, realtor, of Bradford, Ontario and in Florida on the basis of an appraisal dated August 31, 1962 by Messrs. R. P. Dunty and E. Nelson, realtors, of Lake Placid, Florida. The surplus of \$5,273,919 resulting from these appraisals was applied in the year ended June 1, 1963 to write down certain items of plant and equipment and to write off "deferred farm costs".

3. Long-Term Debt

	Current portion	Long-Term portion	Total
6½% mortgage due September 20, 1980 payable \$17,500			
July 1, 1966—\$40,000 semi-annually thereafter	\$ 57,500	1,499,000	1,556,500
Lien contracts and chattel mortgages	9,000	47,424	56,424
6% promissory note due January 1, 1981			
payable \$5,462 per annum	5,462	76,464	81,926
6½% serial debentures due June 15, 1967	—	50,000	50,000
6% unsecured notes due July 31, 1967	—	100,000	100,000
6% convertible debentures due June 1, 1971	—	195,276	195,276
	<hr/> <u>\$ 71,962</u>	<hr/> <u>1,968,164</u>	<hr/> <u>2,040,126</u>
Bank loans and deferred interest—secured by			
collateral mortgage	668,169	3,167,532	3,835,701
	<hr/> <u>\$740,131</u>	<hr/> <u>5,135,696</u>	<hr/> <u>5,875,827</u>

(a) The long-term portion includes \$4,741,924 payable in U.S. funds.

(b) 6% convertible debentures may be converted into common shares at the option of the holders at any time prior to June 1, 1971 on the basis of one common share for each 75¢ of the principal amount thereof to the extent of 25% of such principal amount for each full year elapsed from June 1, 1964. Interest on these debentures has been waived contingent upon the principal being paid when due and as at May 28, 1966, the contingent liability in respect of interest on the debentures amounted to approximately \$22,000.

4. Capital Stock

Of the authorized and unissued shares, 260,368 common shares are reserved against the exercise of the conversion right attaching to 6% convertible debentures, and 95,000 common shares are reserved under employee stock options exercisable at various dates to November 2, 1969 at 75¢ per share.

During the year 20,000 common shares were issued for cash at \$1.00 per share and 27,632 common shares were issued at 75¢ per share on the conversion of 6% convertible debentures.

At May 28, 1966 quarterly cumulative dividends payable on 9,198 6½% preferred shares outstanding were in arrears in the amount of \$22.75 per share.

5. Contingent Liability

As at May 28, 1966 there was a contingent liability of \$155,000 with respect to a note under discount. The company holds a chattel mortgage on its former dairy herd as security for the payment of this note.

